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China-U.S. Trade Issues

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China-U.S. Trade Issues

SUMMARY

The growing U.S. trade imbalance with China, and alleged Chinese unfair trade practices, have become of major concern to many U.S. policymakers. Over the past few years, the U.S. trade deficit with China has grown at a faster rate than that of any other major U.S. trading partner. In 1993, the U.S. trade deficit with China totalled $22.8 billion, the second largest U.S. bilateral trade imbalance after Japan. Many trade analysts have attributed the growing U.S.-China trade deficit to a variety of Chinese restrictive trade practices that have effectively limited U.S. exports of various products to China. Other areas of concern to the United States have included China's alleged violation of U.S. intellectual property rights, transshipments of textiles to the United States in violation of U.S. textile quotas, and China's alleged use of forced labor in the production of Chinese goods exported to the United States.

China's increasing trade surplus with the United States, alleged unfair trade practices, and other issues have became a focal point in congressional debate over whether or not to deny most-favored-nation (MFN) status to China. Over the past few years, Congress has attempted to pass legislation terminating or conditioning China's MFN. Such legislation was vetoed by the Bush Administration, and Congress was unable to override the vetoes.

On May 28, 1993, President Clinton issued an executive order continuing unconditional MFN for China for an additional year, but placing conditions on renewal of China's MFN thereafter. On May 26, 1994, President Clinton announced a one-year extension of China's MFN status, but issued trade sanctions on U.S. imports of Chinese weapons.

The United States and China have reached agreements on several trade disputes:

- On Apr. 26, 1991, the United States Trade Representative (USTR) designated China under Special 301 for failing to provide adequate protection for U.S. intellectual property rights (IPR) and initiated a Section 301 investigation. A trade agreement was reached Jan. 16, 1992. However, on Apr. 30, 1994, the USTR warned that unless China took additional steps to enforce its IPR laws by June 30, the United States would consider imposing trade sanctions.

- On Oct. 10, 1991, the USTR initiated a Section 301 investigation of four major Chinese trade barriers. On Oct. 10, 1992, China agreed to undertake substantial reforms to its trade regime.

- On Aug. 7, 1992, the United States and China formally signed a memorandum of understanding to ensure that products made by forced labor in China are not exported to the United States.

- On Jan. 17, 1994, the United States and China reached an agreement on U.S. import quotas on Chinese textile and apparel products.

It is likely that Congress will closely follow China's progress in implementing the trade agreements. Should the trade deficit with China continue to rise, and if China is found to be in violation of its trade commitments, Congress may seek to enact new legislation to impose sanctions against Chinese products. Congress may also seek to impose additional trade sanctions in response to China's alleged violations of human rights.

MOST RECENT DEVELOPMENTS

On May 26, 1994, President Clinton announced his decision to extend China's MFN status for an additional year, but imposed sanctions on U.S. imports of Chinese munitions. The President also announced that human rights concerns would no longer be linked to China's MFN status, but instead would be addressed by other means. Congressional opponents of the President's decision announced they would introduce legislation to impose additional sanctions against China.

On Apr. 30, 1994, the USTR warned that the United States would designate China under Special 301 as a "priority foreign country" unless China took additional steps to protect U.S. intellectual property rights.

Responding to alleged Chinese textile transshipments, the USTR, on Jan. 6, 1994, announced that the United States would substantially reduce U.S. imports of Chinese textile and apparel products, barring a new textile agreement by Jan. 16, 1994. A last-minute agreement was reached on Jan. 16, 1994, in which China pledged to take steps to halt textile transshipments.

BACKGROUND AND ANALYSIS

U.S. Trade with China

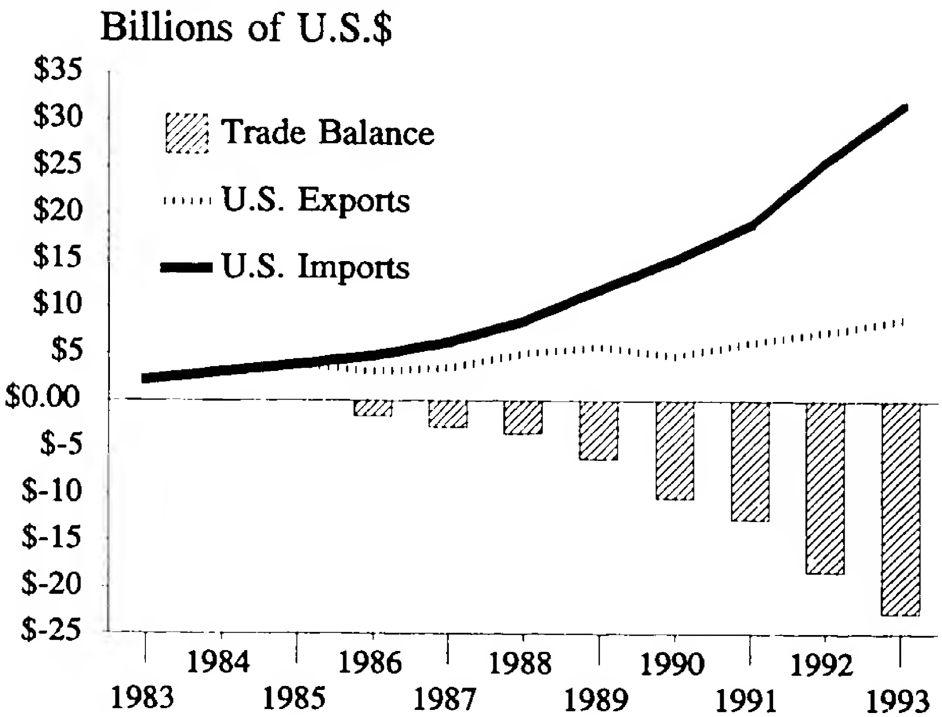
U.S. trade with China rose rapidly after the two nations established diplomatic relations (January 1979), signed a bilateral trade agreement (July 1979), and provided mutual MFN benefits beginning in 1980. Total trade (exports plus imports) between the two nations rose from $4.8 billion in 1980 to $40.3 billion in 1993 -- making China the 7th largest U.S. trading partner (1993). Over the past few years, the U.S. trade deficit with China has grown significantly, due largely to a surge in U.S. imports of Chinese goods relative to U.S. exports to China. Between 1985 and 1993, U.S. exports to China increased by 127.6%, while U.S. imports from China surged by 716.5%. As a result, the U.S. trade deficit with China has been rising at a faster rate than that of any other major U.S. trading partner. In 1985, the United States had a $10 million trade deficit with China. In just 8 years, the U.S trade deficit with China surged to $22.8 billion, making China the second largest deficit trading partner of the United States behind Japan (**see figure** 1). The U.S. trade deficit with China increased by 24.4% in 1993. If this trend continues, the U.S. trade deficit with China will likely exceed $28 billion in 1994. Some analysts predict that in the near future, the U.S. trade imbalance with China will exceed that of Japan .

TABLE 1. U.S. Merchandise Trade With China: 1981-1993
($ millions)

Year	U.S. Exports	U.S. Imports	Trade Balance
1981	3,603	1,895	1,707
1982	2,912	2,284	628
1983	2,173	2,244	-71
1984	3,004	3,065	-61
1985	3,852	3,862	-10
1986	3,105	4,771	-1,666
1987	3,488	6,293	-2,805
1988	5,033	8,512	-3,479
1989	5,807	11,989	-6,181
1990	4,807	15,224	-10,417
1991	6,278	18,976	-12,698
1992	7,418	25,727	-18,309
1993	8,767	31,535	-22,768
Jan.-Mar. 1993	1,932	6,140	-4,209
Jan.-Mar. 1994	2,212	7,439	-5,227

Source: U.S. Department of Commerce.

FIGURE 1. U.S. Merchandise Trade with China, 1983-1993



U.S. Exports to China

U.S. exports to China in 1993 totalled $8.8 billion, accounting for 1.9% of total U.S. exports to the world, and making China the 13th largest market for U.S. exports. At present, China is a relatively small market for U.S. exports. For example, U.S. exports to China are smaller than those to such Asian countries as Hong Kong, Singapore, South Korea, and Taiwan. However, China is becoming one of the fastest growing markets for U.S. exports.

As indicated in table 2, U.S. exports to China are much smaller than U.S. exports to other countries and regions of the world such as the European Union (EU), the newly industrialized countries (NICs), Canada, Japan, and Mexico. However, from 1990 to 1993, U.S. exports to China grew by 82.4%, compared to 18.1% for the world, -1.1% for the EU, 29.0% for the NICs, 20.8% for Canada, -1.3% for Japan, and 43.0% for Mexico. China was the fastest growing market for U.S exports in 1993, increasing by 18.2%, compared to 3.7% for U.S. exports to the world, -5.7% for the EU, 8.1% for the NICs, 11.1% for Canada, 0.4% for Japan, and 2.6% for Mexico.

TABLE 2. U.S. Exports to Selected Trading Partners: 1990-1993
($Billions and % Change)

	1990	1991	1992	1993	1992/1993 % Change	1990/1993 % Change
World	$393.6	$421.7	$448.2	$464.9	3.7%	18.1%
China	[illegible].8	6.3	7.4	8.8	18.2	82.4
EU	98.0	103.2	102.8	97.0	-5.7	-1.1
NICs	40.7	45.7	48.7	52.6	8.1	29.0
Canada	83.0	85.1	90.2	100.2	11.1	20.8
Japan	48.6	48.1	47.8	47.9	0.4	-1.3
Mexico	28.4	33.3	40.6	41.6	2.6	46.7

Source: U.S. Department of Commerce. Data obtain by CRS using Tradenet. Calculations performed by CRS.

The top five U.S. exports to China in 1993 were transport equipment (mainly aircraft and parts), road vehicles, specialized machinery, telecommunication and sound equipment, and general industry machinery. Together, these five commodities totalled over $4.7 billion, accounting for over half of total U.S. exports to China (**see table 3**). Transport equipment was by far the largest U.S. export to China, accounting for 25.7% of total U.S. exports. China was the third largest market for U.S. transport equipment exports, seventh for road vehicles, sixth for specialized machinery, sixth for telecommunication and sound equipment, and eleventh for general industry machinery.

TABLE 3. Major U.S. Exports to China: 1990 and 1993*
($Millions)

SITC Commodity	1990	1993	1990/1993 % Change
Total all commodities	$4,807	$8,767	82.4%
Transport equipment, n.e.s., excluding road vehicles (mainly aircraft and parts)	755	2,253	198.4
Road vehicles (inc air-cushion vehicles)	50	765	1,430.0
Machinery specialized for particular industries	323	675	109.0
Telecommun & sound record & reproduce app & equip.	81	614	658.0
General industrial machry & equipmt, n.e.s. & pts.	179	429	139.7
Professional scient & control inst & apparatus nes	191	355	85.9
Power generating machinery and equipment	204	321	57.4
Fertilizers (except crude of group 272)	544	293	-46.1
Cereals and cereal preparations	513	274	-46.6
Metalworking machinery	75	272	262.7
Electrical machry, apparatus & appliances, n.e.s.	137	257	87.6
Petroleum, petroleum products & related materials	5	249	4,880.0
Office machs and automatic data processing machs.	138	228	65.2
Organic chemicals	245	204	-16.7
Plastics in primary forms	152	168	10.5

Ranked according to the top 15 U.S. exports to China in 1993.

Note, n.e.s. stands for not elsewhere specified.

Source: U.S. Department of Commerce. Data obtained by CRS using Tradenet.

While China is currently a relatively small market for U.S. exports, many trade analysts argue that China will likely prove to be a significant market in the future. China is one of the world's fastest growing economies, and its efforts to reform and modernize its economy could result in a significant increase in demand for a wide variety of products and services in the near future. The United States and Foreign Commercial Service (US&FCS) projects U.S. sales of aircraft, electric power systems, oil and gas equipment and services, and computers and peripherals are likely to be the among the fastest growing U.S. exports to China in the years ahead (**see ta**[illegible]).

TABLE 4. US&FCS Top Ten Best Prospect Sectors for U.S. Exports to China, 1992-1995: Actual and Estimates
($Millions)

	Actual	Estimated		
Year	1992	1993	1994	1995
Aircraft and Parts	$2,000	$2,400	$2,880	$3,456
Electric Power System	1,469	1,900	2,451	3,162
Oil and Gas Field Machinery and Services	200	400	800	1,600
Computers and Peripherals	440	700	1,050	1,575
Industrial Chemicals	386	432	484	542
Agricultural Chemicals	847	712	619	538
Chemical Production Machinery	300	330	363	399
Electronic Components	250	287	330	380
Plastic Materials and Resins	464	361	322	288
Building Products	185	196	212	229
Totals	6,541	7,718	9,511	12,168

Source: U.S. Department of Commerce, International Trade Administration, U.S. & Foreign Commercial Service. *Peoples' Republic of China Fiscal Year 1994 Country Market Plan*, August 1993, various pages. Calculations performed by CRS.

Major U.S. Imports From China

China is a relatively large source of many U.S. imports. In 1993, imports from China accounted for 5.4% of total U.S. imports, making China the fourth largest supplier of U.S. imports. The level of U.S. imports from China doubled between 1990 and 1993 The top five U.S. imports from China in 1993 were (1) miscellaneous manufactured articles (such as toys, games, etc.); (2) clothing and apparel; (3) footwear; (4) telecommunications equipment, sound recording, and reproducing equipment (such as telephone answering machines, radios, tape recorders and players, televisions, VCRs, etc.); and (5) electrical machinery (see **table 5**). Together, imports of these five commodities totalled over $21.9 billion and accounted for over two-thirds of total U.S. imports from China. U.S. imports from China in 1993 rose by $5.8 billion (or 22.6%)

over the previous year. Imports of miscellaneous manufactured articles, clothing, and footwear accounted for a substantial share of this increase.

TABLE 5. Major U.S. Imports From China: 1990 and 1993*
($millions and % increase)

SITC Commodity	1990	1993	1990/1993 % Change
Total all commodities	$15,224	$31,535	107.1%
Miscellaneous manufactured articles, n.e.s.	3,243	7,151	120.5
Articles of apparel and clothing accessories	3,469	6,187	78.4
Footwear	1,477	4,520	206.0
Telecommun & sound record & reproduce app. & equip.	1,163	2,294	97.2
Electrical machry, apparatus & appliances, n.e.s.	657	1,739	164.7
Travel goods, handbags and similar containers	696	1,321	89.8
Textile yarn, fabrics, made-up articles, n.e.s.	658	1,013	54.0
Office machs and automatic data processing machs.	118	952	706.8
Manufactures of metals, n.e.s.	381	788	106.8
Photo appt, equip & optical goods n.e.s.; watch & clock	195	519	166.2
General industrial machry & equipmt, n.e.s. & parts.	286	513	79.4
Furniture & pts; bedding, mattresses, etc.	145	503	246.9
Nonmetallic mineral manufactures, n.e.s.	176	442	151.1
Prefab buildings; sanitary, plumb etc., fix n.e.s.	94	441	369.1
Fish (excpt marine mammal) crustaceans, etc, preps	400	299	-25.3

*Ranked according to the top U.S. 15 imports from China in 1993.

Note, n.e.s. stands for not elsewhere specified

Source: U.S. Department of Commerce. Data obtained by CRS using Tradenet.

China was the largest source for U.S. imports of miscellaneous manufactured articles, first for clothing and apparel, first for footwear, fourth for telecommunications equipment and sound recording and reproducing equipment, and ninth for electrical machinery.

China's Trade With the United States

The United States is China's largest market for its exports. Chinese exports to the United States grew from $5.5 billion in 1988 to $31.5 billion, an increase of 473%. The U.S. share as a destination of total Chinese exports rose from 11.5% in 1988 to 34.3% in 1993 (**see table 6**).

TABLE 6. Chinese Exports to the World and United States*: 1988-1993
($Billions)

Year	Total Chinese Exports	Chinese Exports to the United States	Chinese Exports to the United States as a % of Total Exports
1988	$47.7	$5.5	11.5%
1989	52.9	12.0	22.7
1990	62.7	15.2	24.2
1991	72.0	19.0	26.4
1992	85.6	25.7	30.0
1993	91.8	31.5	34.3

*Note, data on total Chinese exports to the world are official Chinese trade statistics. Data on Chinese exports to the United States are U.S. data (reported as U.S. imports of Chinese products into the United States).

Source: International Monetary Fund, *Direction of Trade Statistics*, and U.S. Department of Commerce.

A study by the World Bank estimates that a U.S. withdrawal of China's MFN status would reduce Chinese exports to the United States by 42.9% to 96.4%. This would in effect reduce China's overall exports by $13.5 to $30.4 billion (based on 1993 exports), or 14.7% to 33.1%. Such losses in the short run would reduce the ability of the Chinese to obtain hard currency needed to obtain imports for upgrading its economy and infrastructure, lead to a reduction in new foreign investment in China (especially by foreign companies in China which target the U.S. market), and cause significant employment displacement. It is likely that China's coastal regions and special economic zones where much of China's export-oriented manufacturing is located, would be disproportionately affected by a U.S. cut off of China's MFN status. In the long-run Chinese producers would likely attempt to shift some exports to other markets or shift production to products not affected by non-MFN tariffs. However, the long-term effects of a loss of MFN would still be significant due to the reduction in China's real income which would occur through a deterioration in its terms of trade.

Imports of U.S. products accounted for approximately 9.1% of total Chinese imports in 1992. The United States is an important supplier of several types of goods and services to the Chinese market. For example, in 1992 the U.S. share of Chinese imports of aircraft and parts was 83%. It was 63% for electric power systems, 73% for

computers and peripherals, 50% for electronic components, and 33% for oil and gas field machinery and services.

Congressional Debate Over U.S.-China Trade Relations

Congressional concern over the growing U.S. trade deficit with China and unfair Chinese trade practices have been major factors during congressional debate in recent years over whether to deny or condition China's MFN status, along with human rights, weapons proliferation, and foreign policy issues. As a result, efforts have been made in Congress to revoke China's MFN status or to condition it to a Presidential certification that China has made improvements in these areas. This policy was opposed by the Bush Administration, which sought to deal with these issues outside the MFN process. As a result, President Bush vetoed congressional attempts to revoke or condition China's MFN, and such vetoes were consistently sustained in the Senate. As a presidential candidate, Bill Clinton criticized the Bush Administration's China policy and pledged to take a tougher approach to U.S.-China trade relations, including conditioning China's MFN renewal.

Legislation was introduced in early 1993 (including H.R. 1835, H.R. 1890, H.R. 1991, and S. 806) that would condition renewal of China's MFN status to progress in such areas as prison labor exports, freedom of emigration, human rights, trade liberalization, and weapons nonproliferation. If such legislation were enacted, and China was found to be in noncompliance with any of the stated conditions, the United States would withdraw MFN treatment (hence raising import tariffs) on products imported from China designated as having been produced by Chinese state enterprises. Products produced by foreign joint ventures and private enterprises would be excluded from non-MFN treatment.

On May 28, 1993, President Clinton issued an executive order effectively continuing China's unconditional MFN status for an additional year (through July 1994), but placing conditions on China's MFN status thereafter. Specifically, the Secretary of State could not recommend an extension of China's MFN unless he determined that China had abided by its 1992 agreement to halt exports of prison labor products to the United States, and that an extension would substantially promote freedom of emigration objectives of the Jackson-Vanik amendment to the 1974 Trade Act. In addition, the Secretary of State had to consider whether China had made overall significant progress in specific areas of human rights.

On May 26, 1994, President Clinton announced his decision to extend China's MFN status for an additional year even though China did not achieve overall significant progress in human rights. The President also announced that human rights conditions (other than freedom of emigration) would not be linked to China's continued MFN status, but instead would be addressed by other means. However, the President announced that the United States would imposed sanctions on U.S. imports of Chinese munitions due to alleged violations of human rights in China.

Congressional opponents of the President's decision announced they would introduce legislation to impose additional sanctions against China. One possible option would be to terminate MFN status only for products imported from China which were produced by Chinese state-owned enterprises. Another option reportedly under

consideration would be to ban imports from enterprises owned or controlled by the Chinese People's Liberation Army (PLA).

Section 301 Investigation of Major Chinese Trade Barriers

U.S. officials have held negotiations with China over the past few years regarding U.S. concerns over China's growing protectionist measures. In April 1991, the Bush Administration launched a "market access initiative" aimed at inducing China to take action to reduce market barriers to U.S. products. In July 1991, the Administration pledged that it would hold a special round of market access negotiations with the Chinese and that a Section 301 investigation would be initiated if such talks failed to yield substantial progress. After those talks failed to produce an agreement, the President directed the USTR on Oct. 10, 1991 to initiated Section 301 case against four significant unfair trading practices affecting U.S. exports to China:

-- selected product-specific and sector-specific import prohibitions and quantitative restrictions;

-- selective restrictions on imports made effective through restrictive import license requirements;

-- selected technical barriers to trade, including standards, testing and certification requirements, and policy toward phytosanitary and veterinary standards that create unnecessary obstacles to trade; and

-- failure to publish laws, regulations, judicial decisions and administrative rulings of general application pertaining to customs requirements, restrictions, or prohibitions on imports or affecting their sale or distribution in China.

The Section 301 case against China was highly unusual due to its breadth of coverage. Most Section 301 cases involve investigations of certain trade restrictions to specific products. However, the China Section 301 case was the most sweeping market access investigation in the USTR's history; it was essentially aimed substantially reforming China's entire trade regime. In addition, the USTR linked U.S. support for China's re-entry into the General Agreement on Tariffs and Trade (GATT) to a successful resolution of the trade dispute.

U.S. and Chinese trade officials held nine rounds of negotiations on China's trade barriers between October 1991 and October 1992. On Aug. 21. 1992, the USTR determined that China's trade concessions to date had failed to resolve the trade dispute and published a list of products imported from China, valued at $3.9 billion, under consideration for possible U.S. retaliation in the event that the trade talks fail to produce an agreement by Oct. 10, 1992. The proposed sanctions were the highest level ever issued by the USTR under a Section 301 case. China in turn threatened retaliation against a comparable level of U.S. products.

On Oct. 10, 1992, the United States and China reached an agreement settling the Section 301 case. Under a Memorandum of Understanding (MOU), China pledged to reduce or eliminate a wide variety of trade barriers over the next 5 years (according to

specific timetables), including tariffs, quotas, import restrictions, import licenses, and import substitution laws. In addition, China agreed to take a number of specified steps to make its trade regime more transparent, such as publishing its trade laws and regulations. Finally, China agreed to establish a joint working group to eliminate scientific standards and testing barriers to agricultural imports within 12 months. For its part, the United States pledged to "staunchly support" China's entry into the GATT and to reduce exports controls on computer and telecommunications equipment exports to China. The agreement also call for the two nations to establish a working group to monitor compliance with the agreement and to consult on the progress of the agreement on an annual basis.

U.S. trade officials have held several rounds of talks with Chinese officials in recent months concerning China's implementation of the Oct. 10, 1992 agreement. Concern has been raised by some U.S. officials that China has moved too slowly in moving to implement certain aspects of the agreement, such as the removal of all quantitative barriers to certain imports, reducing restrictions on U.S. auto joint ventures in China, making China's trade regulations more fully transparent, and eliminating discriminatory sanitary regulations on imported food products. On Nov. 2, 1993, the USTR stated that China had failed to fully implement the trade agreement, and warned that the United States was prepared to impose sanctions, if necessary, unless China submitted an action plan by Dec. 31, 1993, which would reduce the trade barriers specified under the trade agreement.

On Jan. 6, 1994, the USTR announced that China had made significant progress in implementing several important provisions of the agreement. China agreed to reduce quantitative trade barriers on a wide variety of industrial products and to take specified steps to make its trade regime more transparent. Chinese restrictions on U.S. wheat and apples were also removed. However, the USTR charged that China had failed to lift trade barriers on other U.S. agricultural products. The USTR announced that it would continue to press China to fully implement the trade agreement.

Violations of U.S. Intellectual Property Rights

Section 182 of the Trade Act of 1974, as amended by section 1303 of the Omnibus Trade and Competitiveness Act of 1988 (P.L. 100-418), requires the USTR to identify "priority" countries which violate U.S. intellectual property rights, including patents, copyrights, trademarks, and trade secrets. Under this provision, also known as "Special 301," the USTR is required to initiate a Section 301 investigation of priority countries which fail to provide adequate and effective protection of U.S. intellectual property rights or deny fair and equitable market access to U.S. firms which rely on intellectual property rights protection. The USTR is directed to seek negotiations with the priority nations to end such violations and, under certain circumstances, to recommend retaliatory measures to the President if such violations have not ceased within 6 to 9 months of the USTR's investigation.

In April 1991, China (along with India and Thailand) was named as a priority country under Special 301. A formal Section 301 investigation was launched by the USTR on May 26, 1991 of four specific deficiencies in China's intellectual property rights practices that were responsible for the denial of adequate and effective protection for U.S. property:

-- deficiencies in the patent law, in particular, the failure to provide product patent protection for chemicals, included pharmaceuticals and agrichemicals;

-- lack of copyright protection for U.S. works not first published in China;

-- deficient levels of protection under the copyright law and regulations; and

-- inadequate protection of trade secrets.

On Nov. 26, 1991, the USTR determined that insufficient progress had been made in resolving Chinese intellectual property rights violations. The USTR decided to extend the investigation, but ordered to be printed in the Federal Register a draft list of products imported from China that would be subject to possible U.S. trade sanctions if an agreement was not reached by Jan. 16, 1992. China in turn warned that such action would prompt retaliation against U.S. products. However, last-minute negotiations yielded an MOU agreement on Jan. 16, 1992 and, as a result, the USTR decided to terminate the Section 301 case.

Under the MOU, China agreed to take certain steps (such as strengthening its patent, copyright, and trade secret laws) to improve protection of U.S. intellectual property, including computer software, sound recordings, and agrichemicals and pharmaceuticals. The USTR has stated that China has made progress in implementing the MOU, through enactment of laws to protect intellectual property, but has raised concern over China's enforcement of such laws. U.S. officials have identified Chinese firms that have violated U.S. intellectual property rights and have pressed the Chinese officials to take legal action against such firms.

On Apr. 30, 1994, the USTR warned that the United States would designate China under Special 301 as a "priority foreign country" for failure to protect U.S. intellectual property rights unless China took additional steps to protect U.S. intellectual property rights.

Illegal Textile Transshipments

Most international trade in textiles is governed by the Multifiber Arrangement (MFA) under the auspices of the General Agreement on Tariffs and Trade (GATT). The MFA waives normal GATT rules on trade restraints by allowing GATT nations to place limits on most textile and apparel imports from less developed nations. Limitations on textile and apparel imports are accomplished either through unilateral restrictions or by bilateral agreements on quotas. Currently, the United States has textile and apparel quota agreements with over 40 countries, including China, which is the largest volume supplier of U.S. textile and apparel imports. Total U.S. imports of Chinese textiles and apparel are limited by an aggregate quota, based on square meter equivalents (SMEs), that are allowed to grow by 3% per year. In addition, quantitative limits have been placed on specific textile and apparel product categories. The latest U.S.-Chinese textile agreement expired on Dec. 31, 1993.

The U.S. Customs Service has found extensive evidence that China has attempted to circumvent U.S. textile quotas, through transshipments of Chinese products through other countries to the United States using false country of origin labels, and through

misclassification of textile and apparel products. The USTR estimates that such transshipments may total $2 billion each year. In addition, the United States has charged that certain Chinese entities have sought to avoid U.S. tariffs by undervaluing textile and apparel shipments. Charges by the U.S. Customs Service of illegal transshipments by China has led the United States on a number of occasions to reduce China's textile and apparel quotas on specific products.

On Jan. 6, 1994, the USTR announced that China's textile and apparel quota would be significantly reduced (25% to 35% below 1993 levels) due to China's refusal to accept anti-circumvention provisions in a new textile agreement. The new quota levels were set to take effect on Jan. 17, 1993. On Jan. 17, however, the United States and China concluded a new textile agreement that would effectively reduce the growth rate of China's textile exports to the United States. The agreement also allows the United States to significantly reduce quotas (under certain conditions) if China violates the agreement through transshipments. Finally, the agreement sets new quotas on Chinese silk apparel. The new agreement is effective for 3 years.

Prison Labor Exports

The use of forced labor is believed to be widespread and a long-standing practice in China. Recent evidence suggests that China may be utilizing forced labor on a large scale in order to boost its exports, a large portion of which may be targeted to the United States. The importation from any country of commodities produced through the use of forced labor is prohibited by U.S. law, although obtaining proof of actual violations for **specific** imported products is often extremely difficult.

In July 1991, the Bush Administration pledged to increase inspections by the U.S. Customs Service of imported Chinese products suspected of being produced using prison labor. Over the past 2 years, the Customs Service has banned the release of certain imported Chinese-made products (including wrenches, steel pipes, machine tools, machine presses, diesel engines, hosiery, tea products, and sheepskin and leather products) suspected of being produced by forced labor <u>until</u> a determination is made whether such products were in fact produced with prison labor.

On Aug. 7, 1992, the United States and China formally signed an MOU to ensure that products made by forced labor in China are not exported to the United States. China agreed to provide U.S. officials with access to forced labor sites suspected of producing products for export to the United States. Recent reports by human rights groups charge that China has taken a number of steps to circumvent the MOU on prison labor exports and has failed to provide adequate access to suspected prison labor sites to U.S. officials.

Prospects For Future U.S-Chinese Trade Relations

China's economy is one of the fastest growing economies in the world. Its real GDP grew by 13% in 1993. China's rapid economic growth coupled with economic reforms and trade liberalization have, in recent years, led to a sharp increase in Chinese imports. U.S. exporters have benefitted from these reforms through increased export sales, and many analysts argue that China is likely to be an increasingly important market for many U.S. products in the years ahead, especially high tech products. China in recent years has become one of the fastest growing markets for U.S. exports; in 1993 U.S. exports to China increased by 18.2% over the previous year.

However, China continues to maintain a vast array of trade barriers against foreign products. U.S. officials charge that such barriers disproportionately affect U.S. exports. U.S. demand for Chinese products continues to outpace the level of U.S. exports to China. In addition, Chinese officials have announced plans boost support for export industries in order to reduce China's trade deficit. As a result, the U.S. trade deficit with China is likely to continue to increase in the near future and thus will likely remain a source of conflict in the years ahead.

The United States continues to press China to fully comply with its trade agreements. The United States threatened possible sanctions against China in Dec. 1993 to force it to comply with varic :s aspects of the market access agreement. China agreed to take certain steps to compl with the agreement, prompting the United States to temporarily withdraw its threat of sanctions. However, it remains to be seen whether will fully implement the terms of the agreement. In addition, on Apr. 30, 1994, the USTR warned that, unless China take additional steps to protect U.S. intellectual property rights by June 30, 1994, the United States may impose sanctions. Finally, some analysts argue that China continues to export products utilizing prison labor and that textile transshipments are still taking place. These trade issues could ultimately result in U.S. trade sanctions against China.

The President's announcement on May 26, 1994, to extend China's MFN status and to delink human rights conditions to that status will likely lead some Members of Congress to introduce legislation which will impose additional sanctions against China. Such sanctions would likely attempt to target Chinese state-owned enterprises or the PLA.